

Vornado[®]
INC.
annual report

FOR THE FISCAL YEAR ENDED JANUARY 28, 1968

DIRECTORS

FREDERICK ZISSU*, *Chairman of the Board
and of the Executive Committee*

ALFRED B. AVERELL, *Vice President, Bache
& Co., Inc., Member New York Stock
Exchange*

THEODORE E. CUMMINGS*, *Vice-Chairman
of the Board*

DR. CHARLES M. EDWARDS, JR., *Dean,
New York University Institute of Retail
Management*

HAROLD L. FIERMAN*, *Senior Partner, Kaye,
Scholer, Fierman, Hays & Handler*

DONALD B. GOMES*, *Executive Vice President*

ALVIN C. MARTIN, *Partner, Zissu, Halper
& Martin*

MURRAY J. SIEGEL*, *President and Chief
Executive Officer*

STANLEY SIMON, *Partner, Stanley Simon and
Associates*

LEO ZWIEBACH*, *Vice President*

*Members of Executive Committee

OFFICERS

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LEO ZWIEBACH, *Vice President*

BERNARD MARCUS, *Vice President*

H. ROBERT ZIMMERMAN, *Vice President*

ALVIN C. MARTIN, *Secretary*

HERBERT ROSENBLUTH, *Treasurer*

EDWIN G. ROSS, *Controller*

COMPARATIVE HIGHLIGHTS

Year ended January 28, 1968
with comparative figures for 1967

	1968	1967
Net sales, including leased departments	\$724,013,120	679,909,631
Leased department sales	26,313,140	25,478,039
Earnings before federal income taxes	18,860,238	20,419,476
Federal income taxes	8,410,000	8,601,505
Net earnings	10,450,238	11,817,971
Earnings per share of common stock	1.83	2.07



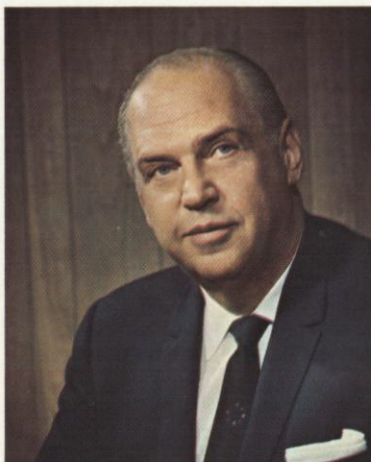
BOARD OF DIRECTORS



FREDERICK ZISSU,
Chairman



THEODORE E. CUMMINGS



MURRAY J. SIEGEL



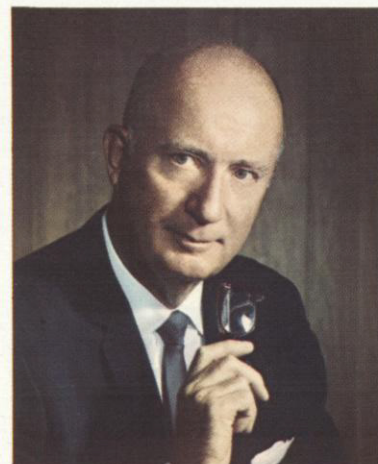
DONALD B. GOMES



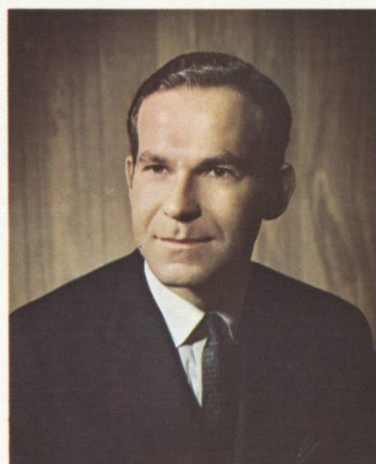
LEO ZWIEBACH



STANLEY SIMON



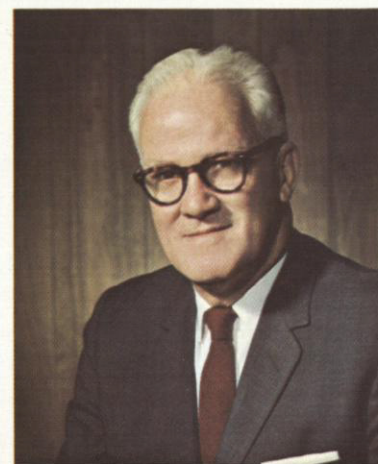
ALFRED B. AVERELL



ALVIN C. MARTIN



HAROLD L. FIERMAN



DR. CHARLES M. EDWARDS, JR.

TO OUR SHAREHOLDERS

Vornado welcomes as members of its growing family the former shareholders of Food Giant Markets, Inc. We have marked our 21st year of operation with record sales and our 82nd consecutive month of sales increase.

The year marked a major development in the growth of Vornado. On September 29, 1967, Food Giant Markets, Inc., operators of a diversified chain of stores concentrated in Southern California, was merged into Vornado, Inc. The figures below include figures of Food Giant Markets, Inc. which have been combined on a "pooling of interests" basis.

For the fiscal year ended January 28, 1968 combined sales amounted to \$724,013,120 an increase of 6.5% over the \$679,909,631 reported on a pro forma basis for the previous fiscal period. Net earnings were \$10,450,238 as compared to \$11,817,971 for the previous year. Per share earnings for the current year amounted to \$1.83 based on the average number of shares of common stock outstanding during the year as compared to \$2.07 per share in the previous year.

While earnings on the East Coast increased, the reorganization of certain West Coast divisions to reflect the merchandising philosophies of Two Guys and major mark-downs, expenses and other losses on the West Coast caused a drop in overall profits

Through the merger, the Company achieved a substantial, established operating base from which to expand in the vital, growing Western market.

Vornado enters its 22nd year as one of the nation's leading discount chains and is now anchored firmly on both the Atlantic and Pacific coasts. We operate 35 Two Guys Discount Department Stores in Eastern states; and in California, we operate 70 Food Giant Supermarkets, 15 Unimart Discount Department stores, 18 Builders Emporium "do-it-yourself" hard goods stores, 5 Texas Liquor and Sundries Stores, the Meyenberg Milk Products Company and 248 franchised Foster Freeze Drive-Ins.

During the past year both Eastern and Western operations were expanded.

In the East, two new Two Guys Discount Department Stores were opened bringing the total to 35 units

located in New Jersey, New York, Massachusetts, Pennsylvania, Connecticut and Maryland. One of the new units is a 210,000 square foot unit in Newark, New Jersey—the first Two Guys downtown unit in a major metropolis. The other is a 122,000 square foot store in the Buffalo, New York suburb of Cheektowaga.

We increased the size of our stores in Dover, New Jersey and in Dundalk, a suburb of Baltimore, Maryland.

In line with our policy of offering one-stop-shopping, we operate our own food supermarkets in 21 of our 35 Two Guys units. In other areas we have provided facilities and leased them to leading supermarkets to retain the advantages of the one-stop-shopping concept.

We are also adding 50,000 square feet each to our Lincoln Shopping Plaza in Lancaster, Pennsylvania and to our Hudson Ridge Shopping Plaza in Rochester, New York. Two Guys is the "anchor" in both centers. Construction is now underway, scheduled for full completion in 1968, with all of the space under lease or negotiations with a variety of tenants. Thus, in addition to making our retailing operations more effective, we are deriving fuller benefit from our real estate holdings.

To keep pace with our growth and in keeping with our centralized concept, we added a 236,000 square foot warehouse, the sixth in our Hanover complex.

On the West Coast we opened a 93,000 square foot Unimart Discount Department Store in the City of Commerce in East Los Angeles, California. This, the 15th in the Unimart chain, was the first to be opened after the merger and it incorporates a number of the ideas and techniques that have made the Two Guys Discount Department Stores so successful in the East.

Four Builders Emporiums were opened during the year—a 34,600 square foot unit in Chatsworth, a 31,800 square foot unit in Lancaster, a 35,300 square foot unit in Escondido and a 32,200 square foot unit in Tarzana, all in California.

The 70th Food Giant supermarket was opened during the year, a 26,250 square foot unit in Escondido, California, adjoining the new Builders Emporium.

To expand the centralized handling of non-food items, in addition to the 25 acres previously owned, we purchased five adjoining acres and are adding 350,000 square feet of warehousing facilities to the existing 306,000 square foot food facility in Santa Fe Springs, California.

At the end of the fiscal year the Vornado retailing area, East and West, totalled 9,657,000 square feet, and centralized warehousing space totalled 2,006,000 square feet.

With Meyenberg Milk Products Company supplying soft ice cream, hamburgers and other products to our Foster Freeze franchisees, we are moving in the direction of the further expansion of the franchising operation.

For the year ahead, Vornado's expansion program in the East includes four new Two Guys units, of which two locations, New London, Connecticut and Brick Town, New Jersey have already been announced.

In the West, one Unimart, five Builders Emporiums and one Food Giant Supermarket are planned for 1968, all in Southern California.

We expanded our Electronic Data Processing in the East by adding another Honeywell 200 to provide us with three complete tape systems. We also added Addo-X and Dataphone to our data transmission systems. In the West we are converting our data processing to all Honeywell third generation equipment. This permits consolidated programming between East and West with uniformity and freer interchange of information.

Upon our acquisition of Food Giant Markets, Inc., Theodore E. Cummings and Harold L. Fierman of Food Giant Markets, Inc. were elected to serve as Directors of Vornado and on the Executive Committee. Mr. Cummings also serves as Vice Chairman of the Board of Directors and President of the Western Division.

In July 1967, Alvin C. Martin, Secretary of Vornado, was elected to our Board of Directors. Mr. Martin is also a partner in the New York law firm of Zissu, Halper and Martin, general counsel to Vornado.

Edwin G. Ross was appointed Controller of Vornado.

To make more accurate comparisons, the Company's fiscal year was changed from a fiscal year ending

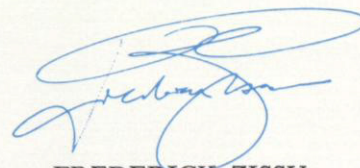
January 31st, to a 52/53 week period ending on the last Sunday in January.

We have settled all Federal income tax claims involving the parent Company through January 31, 1965.

To provide an incentive to key employees and to offer an additional inducement in obtaining and retaining the services of key personnel, the Board of Directors has recently adopted a qualified stock option plan subject to shareholders' approval.

We wish to express sincere gratitude to our 22,000 employees for their dedication and loyalty, to our shareholders for their faith in and support of management, to our suppliers for their cooperation and to our customers for their confidence and patronage. These are the people who have made possible our 21 years of progress and on whom we rely for the future.

Sincerely,

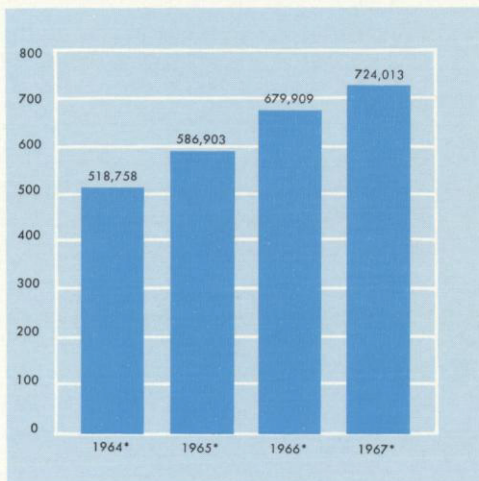


FREDERICK ZISSU
Chairman of the Board



MURRAY J. SIEGEL
*President and Chief
Executive Officer*

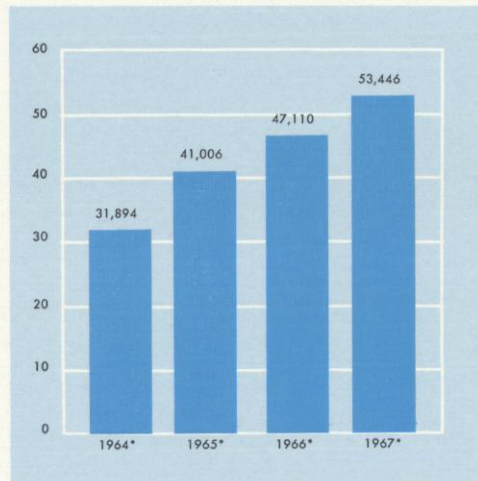
April 27, 1968



SALES

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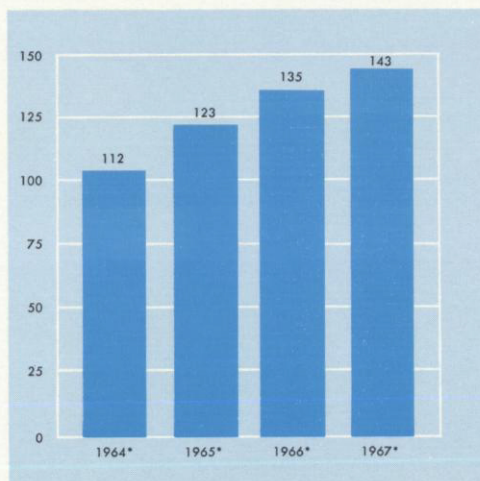
Annual sales volume in 1967 exceeded \$724,013,000 as compared to \$518,758,000 in 1964.



NET WORKING CAPITAL

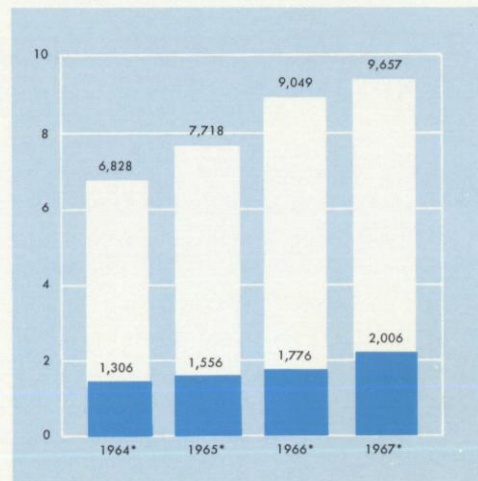
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The amount of net working capital increased from \$31,894,000 in 1964 to \$53,446,000 in 1967.



RETAIL STORES

The number of retail outlets increased from 112 stores in 1964 to 143 stores in 1967.



SELLING AND WAREHOUSE

Area in Square Feet (000 Omitted)

Retailing area expanded from 6,828,000 square feet to 9,657,000 square feet. Warehousing facilities increased from 1,306,000 square feet to 2,006,000 square feet.

*Fiscal years ended January 31, 1965, 1966, 1967 and January 28, 1968 respectively.

Includes Food Giant Markets, Inc. on a pooling of interests basis.

REVIEW OF OPERATIONS

On September 29, 1967, Food Giant Markets, Inc. was merged into Vornado, Inc. The figures reported below include Food Giant Markets, Inc. on a "pooling of interests" basis.

SALES

In its 21st year, Vornado again reached record levels for sales and achieved its 82nd consecutive month of sales increases.

Combined net sales for the fiscal year ended January 28, 1968 amounted to \$724,013,000, an increase of 6.5% over the \$679,909,000 reported on a pro forma basis for the previous fiscal period. The gain of \$44,104,000 in overall sales volume resulted from increased sales in previously existing stores as well as from the addition of newly opened stores.

Combined leased department sales for the current fiscal year amounted to \$26,313,000 or only 3.6% of the total.

EARNINGS

Combined net earnings after taxes were \$10,450,000, equivalent to \$1.83 per share based on the average number of shares of common stock outstanding during the year. Combined net earnings for the previous fiscal period amounted to \$11,818,000 or \$2.07 per share.

FINANCIAL POSITION

During the year, shareholders' equity increased from \$78,737,000 to \$90,038,000 or from \$13.89 to \$15.40 per share. Net working capital increased from

\$47,110,000 to \$53,446,000 (after payment of Vornado's tax liabilities through the taxable year ended January 31, 1965). The current ratio at year end was 1.69 to 1.

Long-term debt, less installments due within one year was \$77,169,000 as compared to \$75,281,000 at January 31, 1967. This represents mortgages on real property amounting to \$59,882,000 and other long-term debt amounting to \$17,287,000.

OPERATING FACILITIES

During the year the following additional facilities were opened:

STORES	SQ. FT.	LOCATION
Two Guys	210,000	Newark, New Jersey
Two Guys	122,000	Buffalo, New York ⁽¹⁾
Two Guys	20,000	Dover, New Jersey ⁽²⁾
Two Guys	8,000	Baltimore, Md. ⁽³⁾
Food Giant	26,250	Escondido, Cal.
Unimart	93,000	E. Los Angeles, Cal. ⁽⁴⁾
Builders Emporium	34,600	Chatsworth, Cal.
Builders Emporium	31,800	Lancaster, Cal.
Builders Emporium	35,300	Escondido, Cal.
Builders Emporium	32,200	Tarzana, Cal.

WAREHOUSES

Two Guys	236,000	Hanover, New Jersey
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(1) In the Cheektowaga suburb

(2) Addition to existing 135,000 feet.

(3) Addition to existing 147,000 feet in Dundalk

(4) City of Commerce

At the end of the fiscal year Vornado's retailing areas totalled 9.7 million square feet and its warehousing facilities totalled 2 million square feet.



NOW SPANS EAST TO WEST

To introduce the former shareholders of Food Giant Markets, Inc. and the shareholders of Vornado, Inc. to the overall Company, the following is a brief resume of the history of the Eastern and Western Divisions.

Vornado's acquisition of Food Giant Markets, Inc. in Southern California constituted a tremendous step forward. From a 35-unit discount chain located in six eastern states, the Company became a two-coast, 143-unit chain. This includes discount department stores, discount food stores, liquor stores, and hardware, building and gardening materials units. We also operate a milk products company and 248 franchised Foster's Freeze drive-ins.

The Company is now in position to expand more rapidly on two fronts, including the East as well as the fast growing West.

Today the Company is one of the country's leading retailers — with sales exceeding \$700,000,000 annually.

It provides employment for some 22,000 employees. And, firmly entrenched on both East and West Coasts, it is in an excellent position to continue its growth and expansion.

IN THE EAST

Two Guys Discount Department Stores

From one 20x40 foot store to 35 Two Guys Discount Department Stores in six states, with five million square feet of retailing space and 1.7 million square feet of warehousing facilities in 21 years is a spectacular growth.

As customers found consistently better values at Two Guys, and as they found the stores more and more attractive, and as the one-stop-shopping concept became more and more a reality, they continued to shop Two Guys in ever increasing numbers.



Two Guys Discount Department Store, Newark, N. J.

The "do-it-yourself" philosophy that marked every phase of the Company's operation was another major



Two Guys Discount Department Store, Buffalo, N. Y.

factor in its successful growth. It enabled the Company to keep operating costs at a minimum so that even as a low mark-up chain, it maintained its profitability.

The Centralized Concept—centralized management, purchasing, warehousing, trucking, planning and engineering, advertising — has been another major factor in the Company's growth. It combines economy of operations with greater efficiency and controlled flexibility.

The stores range in size from 104,000 to 220,000 square feet (except for one 60,000 square foot unit). Through the years a constant modernization program has kept the stores up-to-date.

IN THE WEST

Food Giant Markets, Inc. has had a similar spectacular growth in the last decade. This has been achieved by acquisition through merger, purchase and by opening new stores. At the time of its acquisition by Vornado, Food Giant Markets, Inc. sales were running in excess of \$330 million annually. The major divisions, located in Southern California, except for one unit in the San Francisco area are described below.

Food Giant Supermarkets

In only a single decade Food Giant grew from six units to a chain of 70 supermarkets. The markets average 34,000 square feet each and total 2,375,000



Food Giant Supermarket, Southern California



NOW SPANS EAST TO WEST (continued)

square feet. The chain is serviced by 306,000 square feet of centralized warehousing facilities.

In 1967 Food Giant opened its first discount Food Supermarket, expanding the non-food departments in this store to take fullest advantage of the traffic. Additional stores are being converted to discount food operations.

Unimart Discount Department Stores.

When it was acquired by Food Giant Markets, Inc. in 1961, this division consisted of two stores with a third under construction. In 1967 the fifteenth Unimart was opened. The stores average 111,000 square feet each and total 1,665,000 square feet of retailing space. 14 of these units have self-contained discount

food supermarkets, free-standing automotive buildings and gasoline stations.

The fifteenth store was the first to be opened after the merger and it incorporates a number of the ideas and techniques that have proven so successful for Vornado in the East. In Unimart's modernization program these ideas will be adapted to the other stores as well.

Like the Two Guys Discount Department Stores, Unimart also carries a wide, in depth variety of merchandise, including food. It follows the one-stop-shopping concept that has proven so successful. In addition, it is located in the nation's fastest growing area so that it has a tremendous potential for expansion.



Unimart Discount Department Store, E. Los Angeles, Calif.

Builders Emporium

In 1962, when it was acquired by Food Giant Markets, Inc., Builders Emporium consisted of four stores and six leased departments in other stores. The leased departments have been discontinued but the chain has grown to 18 units totalling 621,000 square feet and averaging 34,500 square feet each.

Because of its climate, the preponderance of one-family houses and its huge population growth, Southern California is one of the largest do-it-yourself markets in the nation, and Builders Emporium meets this demand. The stores offer an excellent selection of hardware and builders supplies as well as garden



Builders Emporium, Escondido, Calif.

equipment and allied merchandise. They cater to the do-it-yourself customer.

Meyenberg Milk Products Inc.

This company was acquired by Food Giant Markets, Inc. in 1960. One activity is the manufacture of evaporated and sweetened condensed milk and ice milk mix. In its second activity it operates, by franchise, 248 Foster Freeze soft ice cream and hamburger drive-ins.

The Company supplies the Foster Freeze franchisees with ice-milk mix, syrups, hamburger meat and other items. An accelerated franchising program is being planned.



Franchised Foster's Freeze Drive-In, Southern Calif.

A LOOK AHEAD

Vornado will continue to grow in both the East and West as it adapts to each the proven successful formulas of the other.

The Western Division will operate as autonomously as possible. The existing management has been strengthened by transferring some people from the East. All divisions will be coordinated in order that we may have a full interchange of ideas and derive the fullest benefits and savings from the merger.

Management views the future with optimism. Discount retailing as an industry is growing steadily year after year. Vornado, a pioneer and a leader in the field of discount retailing is more than keeping pace with that growth. We will continue to maintain our position of leadership in the years ahead.

Vornado[®] INC. AND SUBSIDIARIES
AND RELATED REAL ESTATE CORPORATIONS

	JANUARY 28 1968	JANUARY 31 1967
ASSETS		
Current assets:		
Cash	\$ 16,455,360	15,087,578
Receivables and advances to suppliers	11,295,886	9,618,207
Inventories, at lower of cost or market	100,083,801	94,048,441
Prepaid expenses	2,639,353	2,055,591
Total current assets	<u>130,474,400</u>	<u>120,809,817</u>
Property and equipment, at cost (notes 1, 3 and 5):		
Land	17,014,428	14,912,069
Buildings and parking areas	59,882,009	47,614,656
Furniture, fixtures, leasehold improvements and costs	68,359,148	64,694,674
Construction in progress	1,249,957	1,960,231
	146,505,542	129,181,630
Less accumulated depreciation and amortization	39,470,671	31,778,130
Net property and equipment	<u>107,034,871</u>	<u>97,403,500</u>
Other assets:		
Miscellaneous investments	3,147,632	4,803,055
Rent, utility and other deposits	1,894,815	3,041,724
Debt discount and expense	1,066,901	1,025,532
Sundry	2,521,671	2,836,148
Total other assets	<u>8,631,019</u>	<u>11,706,459</u>
	<u>\$246,140,290</u>	<u>229,919,776</u>

See accompanying notes to financial statements.

COMBINED BALANCE SHEET

JANUARY 28, 1968

(with comparative figures at January 31, 1967)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

	JANUARY 28 1968	JANUARY 31 1967
Accounts payable	\$ 54,680,983	46,851,672
Long-term debt installments due within one year	3,701,877	3,131,272
Notes payable	1,274,245	6,697,927
Accrued liabilities	13,511,321	9,432,828
Federal income taxes (note 2)	3,859,478	7,585,608
Total current liabilities	<u>77,027,904</u>	<u>73,699,307</u>

Leased department rental and other security deposits	546,836	521,264
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Long-term debt (note 3):

5% convertible subordinated debentures	3,382,500	4,324,700
3.10% junior subordinated note	2,083,000	2,129,000
Term bank loan	5,724,939	12,600,000
5¾ % promissory note	8,825,000	9,550,000
Other, principally real estate mortgages	60,855,158	49,809,056
	<u>80,870,597</u>	<u>78,412,756</u>
Less installments due within one year	3,701,877	3,131,272
Total long-term debt	<u>77,168,720</u>	<u>75,281,484</u>

Deferred federal income taxes (note 2)	1,358,988	1,680,953
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Stockholders' equity:

Common stock of 4¢ par value per share Authorized 7,500,000 shares; issued 5,846,806 shares (5,557,473 in 1967) (note 4)	233,872	222,299
Capital stock of related real estate corporation	100	100
Additional capital	49,465,086	43,738,739
Retained earnings (including related real estate corporations) (notes 1 and 3)	40,338,784	34,775,630
Total stockholders' equity	<u>90,037,842</u>	<u>78,736,768</u>
	<u>\$246,140,290</u>	<u>229,919,776</u>

STATEMENT OF COMBINED EARNINGS

Year ended January 28, 1968 (with comparative figures for 1967)

SALES AND OTHER REVENUES:

	<u>1968</u>	<u>1967</u>
Net sales, including leased departments	\$724,013,120	679,909,631
Less sales of leased departments	<u>26,313,140</u>	<u>25,478,039</u>
Net sales, excluding leased departments	697,699,980	654,431,592
Other revenues, net	<u>5,523,965</u>	<u>6,202,311</u>
Total sales and other revenues	<u>703,223,945</u>	<u>660,633,903</u>

COSTS AND EXPENSES:

Cost of goods sold	525,493,035	494,459,340
Operating and administrative expenses, exclusive of those shown below	125,267,459	114,710,974
Depreciation and amortization	7,388,402	6,854,884
Taxes, other than federal income taxes	10,393,149	9,205,010
Rent	10,582,419	10,459,785
Interest and debt expense	<u>5,239,243</u>	<u>4,524,434</u>
Total costs and expenses	<u>684,363,707</u>	<u>640,214,427</u>
Earnings before federal income taxes	18,860,238	20,419,476
Federal income taxes (note 2)	<u>8,410,000</u>	<u>8,601,505</u>
Net earnings	<u>\$ 10,450,238</u>	<u>11,817,971</u>

EARNINGS PER SHARE OF COMMON STOCK (based on average number of shares outstanding during the year) ...

\$ 1.83

2.07

See accompanying notes to financial statements.

STATEMENT OF COMBINED RETAINED EARNINGS

Year ended January 28, 1968 (with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Balance at beginning of year:		
As previously reported	\$ 29,523,999	21,348,320
Additional federal income taxes and interest thereon applicable to prior years (note 2)	4,652,000	4,523,000
	<u>24,871,999</u>	<u>16,825,320</u>
Adjustment relating to pooling of interests (note 1)	9,903,631	8,729,382
Balance at beginning of year as restated	<u>34,775,630</u>	<u>25,554,702</u>
Net earnings for the year	10,450,238	11,817,971
	<u>45,225,868</u>	<u>37,372,673</u>
Dividends paid:		
Stock dividend, 2% (114,290 shares at approximate market value)	3,641,279	—
Cash dividends paid by pooled company (prior to merger)	1,245,805	2,597,043
	<u>4,887,084</u>	<u>2,597,043</u>
Balance at end of year (note 3)	<u>\$ 40,338,784</u>	<u>34,775,630</u>

STATEMENT OF COMBINED ADDITIONAL CAPITAL

Year ended January 28, 1968 (with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Balance at beginning of year as previously reported	\$ 19,368,908	17,702,512
Adjustment relating to pooling of interests (note 1)	24,369,831	24,369,831
Balance at beginning of year as restated	<u>43,738,739</u>	<u>42,072,343</u>
Transferred from retained earnings in connection with stock dividend	3,636,708	—
Proceeds received over par value of 119,300 shares of common stock (96,375 shares in 1967) issued on exercise of options, including related federal income tax reduction (note 4)	1,186,358	795,316
Principal amount of convertible debentures converted over par value of 55,743 shares of common stock (53,566 in 1967) issued, less related unamortized debt expense	903,281	871,080
Balance at end of year	<u>\$ 49,465,086</u>	<u>43,738,739</u>

See accompanying notes to financial statements.

COMBINED SUMMARY OF CHANGES IN WORKING CAPITAL

Year ended January 28, 1968 (with comparative figures for 1967)

SOURCE OF FUNDS:

	<u>1968</u>	<u>1967</u>
Net earnings	\$ 10,450,238	11,817,971
Charges to earnings not requiring funds, principally depreciation and amortization	8,012,325	7,417,669
Mortgage debt incurred by related real estate corporations	11,925,000	15,565,000
Borrowings under term bank loans	—	9,100,000
Sale of common stock on exercise of options	1,001,888	692,186
Other	179,992	—
	<u>\$ 31,569,443</u>	<u>44,592,826</u>

APPLICATION OF FUNDS:

Additions to property and equipment, net	14,891,119	27,912,892
Reduction in long-term debt	9,096,533	4,380,135
Dividends paid by pooled company prior to merger	1,245,805	2,597,043
Purchase of treasury stock by pooled company prior to merger	—	2,038,158
Additional income taxes and interest (including \$4,652,000 settled in 1968 but applicable to years prior thereto) ..	—	5,148,962
Other	—	934,903
	<u>25,233,457</u>	<u>43,012,093</u>
Increase in working capital	<u>6,335,986</u>	<u>1,580,733</u>
	<u>\$ 31,569,443</u>	<u>44,592,826</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS JANUARY 28, 1968

(1) Basis of presentation:

On September 29, 1967, the Company acquired all of the outstanding capital stock of Food Giant Markets, Inc. in exchange for 1,914,939 shares of Vornado, Inc. common stock. This transaction has been treated for accounting purposes as a pooling of interests and accordingly the 1967 financial statements have been restated to include the Food Giant Markets, Inc. accounts which were maintained on a 52-53 week fiscal year. Vornado, Inc. has changed its fiscal year end from January 31 to the 52-53 week year ending on the last Sunday in January.

Also, as the Company is in a position to acquire for a nominal amount all of the capital stock of corporations owning certain store and warehouse properties leased and operated by the Company, the accompanying financial statements have been prepared as if the Company had acquired the capital stock of these related real estate corporations.

(2) Federal income taxes:

During the current year, Vornado, Inc. settled additional Federal income taxes arising from partial disallowance

of net operating loss deductions claimed in prior years. The amount of the settlement, including interest net of related tax benefit, was approximately \$4,760,000. Of this amount, \$108,000 and \$129,000 has been charged to operations in the 1968 and 1967 fiscal years, respectively, representing interest, net of tax benefit, applicable to such years. The balance of \$4,523,000 (applicable to years prior to 1967) has been charged to retained earnings at February 1, 1966.

The provision for Federal income taxes includes deferred taxes and charges equivalent to reduction of taxes currently payable in the amount of \$1,041,000 (\$346,000 in 1967) relating to the excess of accelerated tax depreciation over straight-line depreciation used for financial statement purposes, exercise of certain stock options and prior years' interest on taxes settled in 1968. An investment credit of \$275,000 (\$657,000 in 1967) has been applied in reduction of the provision.

(3) Long-term debt:

The 5% Convertible Subordinated Debentures, due March 1, 1982, are convertible into shares of common stock of the Company at a conversion price of \$19.22 per

NOTES TO FINANCIAL STATEMENTS (continued)

share. Annual sinking fund payments of \$100,000 are due to March 1, 1972 and thereafter increase to 10% of the principal amount outstanding on September 1, 1972. Subject to some limitations, the principal amount of debentures converted may be applied to reduce sinking fund obligations. The debentures are subject to redemption under certain conditions.

The 3.10% Junior Subordinated Note due May 1, 1976 provides for annual fixed sinking fund payments; \$48,000 for the next fiscal year and in increasing annual amounts to \$59,000 due on May 1, 1975, with the balance of \$1,660,000 payable on May 1, 1976. The note contains prepayment and repurchase provisions.

The Term Bank Loan is payable over a period of approximately six years from date of borrowing to January 1973, bears interest rates of $\frac{1}{2}\%$ to $\frac{3}{4}\%$ above prime rate and may be prepaid without penalty.

The 5 $\frac{3}{4}\%$ Promissory Note due March 1, 1979 is payable in annual installments of \$725,000.

Other long-term debt consists of mortgages on real property of \$59,882,000 (\$50,999,000 applicable to related real estate corporations of which \$1,222,000 is due within one year) and notes payable to others, at interest rates for the most part between 5% and 6 $\frac{3}{4}\%$.

At January 28, 1968, approximately \$6,100,000 of consolidated retained earnings was free of restrictions contained in the various loan agreements relating to dividends (other than stock dividends) and other payments to stockholders which, in the aggregate, are limited to 25% of consolidated net earnings.

The book value of property pledged under mortgages, the Term Bank Loan and notes secured by trust receipts amounted to approximately \$68,614,000 at January 28, 1968, including \$53,530,000 of property owned by related real estate corporations.

(4) Common shares reserved for options and conversions:

Options for 128,851 common shares were outstanding at January 28, 1968, all of which were exercisable. The option price per share ranges from \$6.11 per share to \$12.45 per share with an aggregate option price for all shares, if exercised, of \$1,227,265. During the current year, options for 119,300 shares were exercised at a total option price of approximately \$1,002,000. No options were granted during the year.

In April 1968, a qualified stock option plan covering a maximum of 297,000 common shares was adopted by the Board of Directors subject to Shareholders' approval.

At January 28, 1968, 192,705 shares were reserved for the conversion of 5% Convertible Subordinated Debentures.

(5) Commitments and contingencies:

Substantially all of the leases covering retail stores and warehouses are long-term in nature with average terms of twenty to twenty-five years. Fixed annual rentals for all types of property (lease terms over three years) exclusive of taxes, insurance and other occupancy costs, will range between \$8,000,000 and \$9,000,000 during the next five years, exclusive of annual rentals of approximately \$5,100,000 payable to related real estate corporations which are eliminated in the combined financial statements. Certain of the leases with unrelated parties provide for additional rentals based on sales.

The company and its subsidiaries are also contingently liable for payments under certain mortgages relating to properties sold, notes discounted and letters of credit aggregating \$2,414,000. In the opinion of management, the possibility of any loss related to these items is remote.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS VORNADO, INC.:

We have examined the combined balance sheet of Vornado, Inc. and subsidiaries and related real estate corporations as of January 28, 1968 and the related statements of combined earnings, retained earnings and additional capital and the combined summary of changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The accounts of Food Giant Markets, Inc. and subsidiaries included in the 1967 combined financial statements presented for comparative purposes were examined by other independent public accountants.

In our opinion, the accompanying combined balance sheet and related statements of combined earnings, retained earnings and additional capital present fairly the combined financial position of Vornado, Inc. and subsidiaries and related real estate corporations at January 28, 1968 and the combined results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying combined summary of changes in working capital presents fairly the information shown therein.

Newark, New Jersey
April 24, 1968

PEAT, MARWICK, MITCHELL & CO.

Vornado[®] INC. AND SUBSIDIARIES

AND RELATED REAL ESTATE CORPORATIONS

†000—Omitted

Fiscal year ended

OPERATING RESULTS

Net sales, including leased departments†	.....
Net sales, exclusive of leased departments†	.....
Net sales, leased departments†	.....
Percentage of leased department sales to total	.....
Depreciation and amortization†	.....
Earnings before federal income taxes†	.....
Federal income taxes†	.....
Net earnings †	.....
Pre-tax earnings per share ¹	.....
Net earnings per share ¹	.....
Number of shares outstanding at end of fiscal year ²	.....

ASSETS AND CAPITAL

Net working capital†	.....
Working capital ratio	.....
Property and equipment at cost†	.....
Property and equipment after depreciation†	.....
Long-term debt†	.....
Shareholders' equity†	.....
Equity per share	.....

FACILITIES

Number of stores	.....
Total store area (square feet)	.....
Warehouse area (square feet)	.....

¹ Based on average number of shares outstanding during each fiscal year, including shares issued in a pooling of interests and adjusted for stock split and stock dividend.

FOUR YEAR FINANCIAL AND STATISTICAL HIGHLIGHTS

(Includes Food Giant Markets, Inc. on a pooling of interests basis)

1967 JAN. 28, 1968	1966 JAN. 31, 1967	1965 JAN. 31, 1966	1964 JAN. 31, 1965
724,013	679,909	586,903	518,758
697,700	654,431	563,771	496,435
26,313	25,478	23,132	22,323
3.6%	3.7%	3.9%	4.3%
7,388	6,855	6,235	5,854
18,860	20,419	21,545	16,565
8,410	8,602	9,657	7,619
10,450	11,818	11,888	8,946
\$ 3.30	\$ 3.57	\$ 3.91	\$ 3.02
\$ 1.83	\$ 2.07	\$ 2.16	\$ 1.63
5,846,806	5,668,622	5,686,668	5,466,118
53,446	47,110	41,006	31,894
1.69-1	1.64-1	1.70-1	1.63-1
146,506	129,182	101,583	81,486
107,035	97,404	74,863	59,418
77,169	75,281	55,907	42,883
90,038	78,737	70,114	57,490
\$ 15.40	\$ 13.89	\$ 12.33	\$ 10.52
143	135	123	112
9,657,000	9,049,000	7,718,000	6,828,000
2,006,000	1,776,000	1,556,000	1,306,000

²Includes shares issued in a pooling of interests and adjusted for stock split and stock dividend.



SPANS EAST to WEST



TWO GUYS DISCOUNT DEPARTMENT STORES

35 stores in 6 Eastern states: New Jersey, New York, Pennsylvania, Maryland, Connecticut and Massachusetts.



FOOD GIANT DISCOUNT SUPERMARKETS

70 stores in Southern California concentrated in the Los Angeles area and San Diego.



UNIMART DISCOUNT DEPARTMENT STORES

15 stores in Southern California except for one in the San Francisco area. 14 of the stores have self-contained food supermarkets.

BUILDERS EMPORIUM

BUILDERS EMPORIUM HARD GOODS STORES

18 stores located in Southern California catering primarily to the "do-it-yourself" customer, with a diversified line.



FOSTER'S FREEZE FRANCHISED DRIVE-INS

248 franchised drive-ins in California selling soft ice cream, hamburgers, etc.

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EXECUTIVE OFFICES

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GENERAL COUNSEL

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AUDITORS

Peat, Marwick, Mitchell & Co., Newark, N.J.

TRANSFER AGENT

Bankers Trust Company, New York, N.Y.

REGISTRAR

Franklin National Bank, New York, N.Y.

Vornado[®] INC.

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